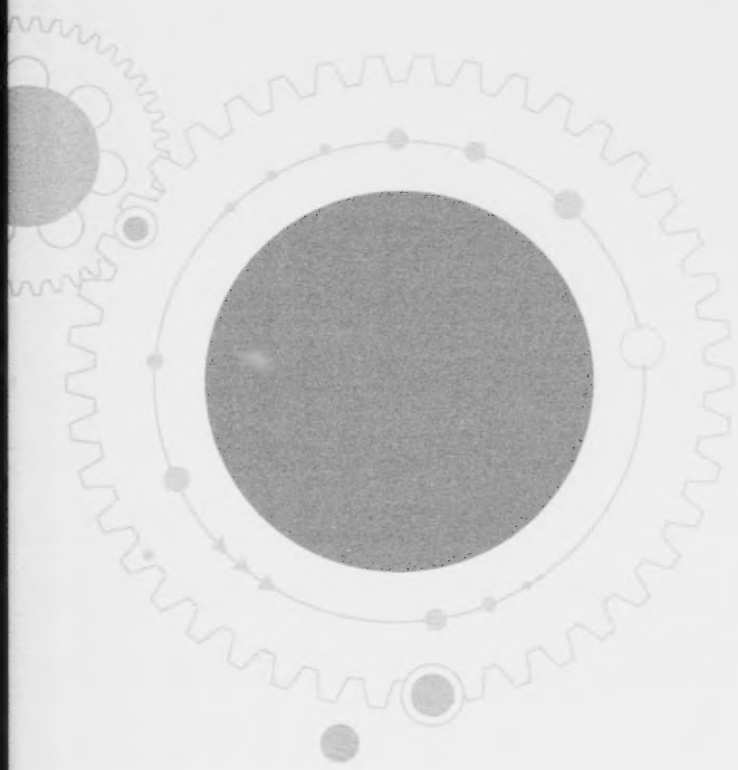
Municipal Pension Plan



2016 ANNUAL REPORT

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Doing it right: 2016

Trustees' message

As we look over the past year, we are pleased to report the Municipal Pension Plan (plan) is fully funded and contribution rates remain unchanged. The plan's most recent valuation, as at December 31, 2015, showed a funding ratio of 104.6 per cent. To help offset potential future contribution rate increases, $1.9 billion of the surplus funding was put into a rate stabilization account. In addition, excess investment money was transferred from the basic account to the inflation adjustment account, improving the plan's ability to provide future cost-of-living adjustments (COLAs).

The valuation report is especially good news in light of the year's challenging environment of low interest rates and muted economic growth. While 2016 investment results underperformed the market benchmark, over a ten-year period the plan's 6.5 per cent annualized rate of return continues to exceed the market benchmark of 5.8 per cent.

Like most pension plans, we also face intensifying demographic pressures. In 2016, retired membership grew 5.6 per cent while active membership grew 2.2 per cent. As our 2014–2016 review of group benefits for retired members showed, the plan's group benefits funding is not keeping pace with rising extended health care and dental costs.

In accordance with our top pension security goals (guarantee of the basic pension; sustainability of cost-of-living adjustments; access to group benefits in retirement), we lowered the assumed rate of return on our investments to reflect market conditions, adjusted the group benefit program for retired members to help control costs. The updated program maintains retiree access to coverage while ensuring the plan continues operating within allowable funding limits.

We also focused on improvements in 2016.

For employers, we simplified contribution rates. The first rate adjustment took place January 1, 2017, and the remaining changes will be phased in over the next two years. When fully implemented, this simplification will remove complexity from the plan, eliminate gender- and age-based employer contribution rate variation, and make budgeting for pension contributions easier and more stable.

To help members manage their pension through each stage of their career, we developed new workshops (both online and in person), and laid the groundwork for an exciting new website (launched spring 2017). The fresh new site is easier to use from a personal computer or smartphone, and provides better access to key services and resources.

We also supported responsible investment through outreach work. We signed two Principles for Responsible Investment (PRI) statements: a statement on environmental, social and governance (ESG) factors in credit ratings (recognizing that ESG factors are important elements in assessing borrowers' credit-worthiness), and a global statement on investor obligations and duties (acknowledging that investors must pay attention to long-term investment value drivers, including ESG issues, in their investment processes). We also provided a letter to CFA Society Toronto—a not-for-profit organization supporting the professional development and advancement of CFA® charterholders—encouraging inclusion of ESG elements in program content.

We remain, as always, committed to preserving plan value, maintaining sustainability, and closely monitoring the investment environment.

Meet the trustees
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Plan investments

Plan portfolio overview

The Municipal Pension Board of Trustees (board) is responsible for overseeing an investment portfolio of approximately $46 billion for the benefit of BC's Municipal Pension Plan (plan) members. The board's primary financial objective is to ensure the long-term sustainability of the plan. Achieving this objective depends, along with other factors, on earning sufficient investment returns over a long horizon.

Five-year financial summary ($ millions)
as at December 31

	2016	2015	2014	2013	2012
Increase in assets					
Investment income	$ 2,659	$ 3,592	$ 4,131	$ 4,737	$ 2,945
Contributions					
Members	884	863	797	739	709
Employers	1,022	993	916	851	812
Transfers from other plans	16	14	44	14	19
Total increase in assets	**4,581**	5,462	5,888	6,341	4,485
Decrease in assets					
Benefit payments	1,690	1,601	1,460	1,380	1,299
Transfers to other plans	15	12	14	18	14
Retired member group benefits	105	86	74	68	65
Investment and administration costs[1,2]	135	124	102	88	82
Total decrease in assets	**1,945**	1,823	1,650	1,554	1,460
Increase in net assets	**2,636**	3,639	4,238	4,787	3,025
Net assets at beginning of year	43,726	40,087	35,849	31,062	28,037
Net assets at end of year	**$46,362**	$43,726	$40,087	$35,849	$31,062
Investment and administration costs as a percentage of net assets (%)					
Investment management[1,2]	0.28	0.24	0.21	0.21	0.22
Benefits administration	0.10	0.09	0.09	0.10	0.11

1 Investment and administration costs as a percentage of net assets include external direct investment management costs netted against investment income of $33.5 million (2015—$18.5 million; 2014—$18.4 million; 2013—$20.2 million; 2012—$21.8 million); they are not included in investment and administration costs in the financial statements.

2 Investment and administration costs as a percentage of net assets exclude external indirect investment management costs netted against investment income. This is consistent with current industry practice; including these costs would have increased investment management costs as a percentage of net assets by an estimated 24 basis points in 2016. External indirect investment management costs include limited partnership costs incurred within investments held in the private equity, infrastructure and global real estate asset classes.

The board's investment strategy and overall framework for plan asset management are outlined in the Statement of Investment Policies and Procedures. The board approves the long-term asset mix policy, recognizing that diversification of investments is a key principle in managing risk.

Investments are held in a range of asset types (e.g., bonds, mortgages, equities, real estate, infrastructure, and private equity), across industry sectors and global markets. The board oversees plan asset management through its investment management agent, the British Columbia Investment Management Corporation (bcIMC).

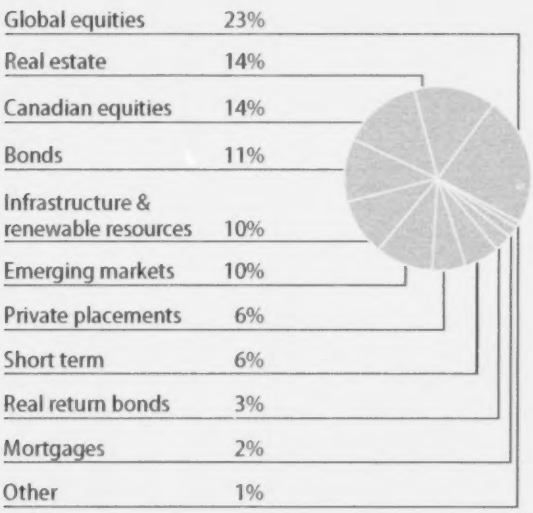
Investment highlights

The plan's investment portfolio earned 5.9 per cent net of fees for 2016, underperforming the market benchmark of 6.6 per cent. In 2016, the market value of the plan's investments increased from $43.5 billion to $46.2 billion. Over a 10-year period, the investment portfolio earned 6.5 per cent on an annualized basis, exceeding the market benchmark of 5.8 per cent.

Long-term investors were challenged by the investment climate during the past year. Uncertainty prevailed, with a series of major geopolitical events and changing macroeconomic conditions: the sharp decline in oil prices in early 2016, the UK's surprising referendum vote result to leave the European Union (Brexit), and the U.S. election. Turbulent market conditions followed Brexit, and unexpected market trends followed the U.S. election, with interest rates rising rapidly and developed equity markets gaining steadily. Overall, financial markets continued to face headwinds in 2016, with low global economic growth and ongoing historically low interest rates.

Combined public equities achieved a return of 6.4 per cent. Canadian equities surged ahead 19.6 per cent, supported by a rebound in commodity prices last year. By comparison, emerging markets and global equities had muted returns of 1.7 and 2.9 per cent, respectively. Underperformance in India and China, in particular, contributed to this result. The combined fixed-income portfolio, which includes money market, bonds and mortgages, outperformed its benchmark, returning 2.5 per cent. A weak Canadian energy sector led to real estate returns of 5.3 per cent, underperforming the benchmark.

INVESTMENT HOLDINGS (TOTAL $46.2 BILLION)
as at December 31, 2016



Investment portfolio*

Investments held as at December 31, 2016

	Market value ($ millions)	Asset mix market value (%)
Short-term		
Money market	$ 1,373	3.0
Bonds (1–5 years)	1,242	2.7
	2,615	**5.7**
Mortgages	**1,088**	**2.4**
Bonds		
Global government	327	0.7
High yield	327	0.7
Universe	4,504	9.7
	5,158	**11.1**
Real return bonds	**1,213**	**2.6**
Canadian equities		
Indexed	4,083	8.8
Actively managed	2,394	5.2
	6,477	**14.0**
Global Equities		
US indexed	2,587	5.6
US actively managed	438	0.9
Global indexed	753	1.6
Global active	2,158	4.7
Thematic investments	352	0.8
Europe indexed	153	0.3
Europe active	824	1.8
Indexed global ESG	1,504	3.2
Asian indexed	489	1.1
Asian active	1,465	3.2
	10,723	**23.2**
Emerging markets	**4,373**	**9.5**
Real estate	**6,583**	**14.2**
Private placements	**2,832**	**6.1**
Infrastructure and renewable resources		
Infrastructure	3,880	8.4
Renewable resources	690	1.5
	4,570	**9.9**
Other	**594**	**1.3**
Total investments	**$46,226**	**100.0**
2015 comparison	**$43,540**	

* Asset classifications vary from the financial statements for the purpose of performance reporting.

Market value asset mix and rates of return

as at December 31, 2016

(All values %)	Approved range	Target asset mix market value	Actual asset mix market value	Rate of return	Performance benchmark
Short-term	0–10	2.0	5.7	0.5	0.5
Mortgages	0–11	6.0	2.4	3.4	1.9
Nominal bonds	5–20	12.0	11.1	3.0	1.7
Real return bonds	0–10	5.0	2.6	2.6	2.9
Fixed income	**15–35**	**25.0**	**21.8**	**2.5**	**1.9**
Canadian equities	6–20	13.0	14.0	19.6	21.1
Global developed equities	10–35	17.0	23.2	2.9	3.3
Emerging markets	3–15	10.0	9.5	1.7	7.3
Equity	**30–60**	**40.0**	**46.7**	**6.4**	**9.3**
Real estate*	**10–25**	**18.0**	**14.2**	**5.3**	**5.5**
Private placements**	**1–13**	**7.0**	**6.1**	****25.6**	****19.1**
Infrastructure and renewable resources**	**2–16**	**10.0**	**9.9**	****10.5**	****8.0**
Other	**0–5**	**0.0**	**1.3**	**6.2**	**2.8**
Total basic asset mix		**100.0**	**100.0**	**5.9**	**6.6**
Annual rates					
2016				**5.9**	**6.6**
2015				8.7	7.0
2014				11.3	9.8
2013				15.1	12.8
2012				10.3	8.2
Five-year annualized rates					
2016				**10.2**	**8.8**
2015				9.7	7.8
Ten-year annualized rates					
2016				**6.5**	**5.8**
2015				7.3	6.4

* Returns on real estate are for domestic pools only.

** The illiquid assets are only valued once a year as of December 31. The rates of return for private placements and infrastructure and renewable resources reflect the December 31, 2015, internal rates of return which is the industry standard for calculating returns for illiquid assets.

Analysis—understanding the plan's investment portfolio

The plan's long-term asset mix policy continues to reflect an increased focus on real assets such as land, buildings, regulated utilities and renewable resources. These assets are primarily tangible, physical investments in private markets, ideally suited for the long-term financial objectives of pension plans. They typically provide reliable cash flows, appreciate in value and protect against inflation while avoiding the short-term volatility of public markets. These investments also allow for more direct asset management, enabling bcIMC to influence the strategic direction of these businesses and create long-term value for the plan.

Investment profiles

Pilot Freight Services

Pilot Freight Services is a third-party logistics provider and freight forwarding business that provides services globally. Pilot, based in Lima, Pennsylvania, serves customers through a network of over 75 stations in North America and Western Europe, and 87 core international partners. They are an important market player and serve a diverse customer base of more than 14,000 customers.

In 2016, bcIMC purchased a 45 per cent equity stake in the privately held company providing it with two seats on Pilot's seven-member board and additional board observer rights.

Source: Shutterstock

UniLodge on Whitaker

UniLodge on Whitaker is a student accommodation development located in Auckland, New Zealand. To support Auckland's growing academic population, the 300-unit building is close to numerous colleges, and minutes from the University of Auckland and Auckland University of Technology. It is also conveniently located within walking distance to shops and public transportation. Each unit boasts modern living with excellent facilities and a community environment. Features include a Residential Life Program that offers trips, events, fitness and health activities, and career and life skill workshops. bcIMC invested in this property in 2016.

Source: Pamoja Capital Group

Responsible investing

Together with bcIMC, we believe responsible investing is an integral part of managing long-term investment risk. Companies that do a good job of managing environmental, social and governance (ESG) matters have less risk and perform better financially over the longer term. Assessing and managing risk over the long term—the cornerstone of responsible investing—is a fundamental way for bcIMC to meet its mandate to grow and protect the value of the plan's fund.

The board and bcIMC are signatories to the Principles for Responsible Investment, an international network of investors coordinated by the United Nations that share the goal of incorporating ESG elements into the processes and activities of institutional investors.

PRI | Principles for Responsible Investment

Managing costs

Managing investment costs is important to the board, and bcIMC's fees continue to be competitive. bcIMC operates on a cost-recovery, not-for-profit basis, and its large asset size provides access to substantial economies of scale.

Top 25 company holdings*

Company	Total public equity exposure—worldwide		
	Percentage of portfolio (%)	Percentage of public equity (%)	Total exposure ($ millions)
Royal Bank of Canada	1.0	2.1	444
The Toronto-Dominion Bank	0.9	2.0	427
Chinese State Controlled Companies**	0.8	1.6	350
Bank of Nova Scotia	0.6	1.3	272
Suncor Energy Incorporated	0.5	1.1	245
Canadian National Railway Company	0.5	1.0	224
Samsung Electronics Company Limited	0.4	0.9	201
Taiwan Semiconductor Manufacturing	0.4	0.9	198
Enbridge Incorporated	0.4	0.8	177
Bank of Montreal	0.4	0.8	169
Brookfield Asset Management Incorporated	0.3	0.8	160
Tencent Holdings Limited	0.3	0.7	155
Canadian Natural Resources Limited	0.3	0.7	151
TransCanada Corporation	0.3	0.7	151
Microsoft Corporation	0.3	0.7	148
Alphabet Incorporated	0.3	0.6	133
Canadian Imperial Bank of Commerce	0.3	0.6	133
BCE Incorporated	0.3	0.6	128
Manulife Financial Corporation	0.3	0.6	125
Aberdeen Global - India Equity Fund	0.3	0.6	121
Sun Life Financial Incorporated	0.3	0.6	117
Alibaba Group Holding Limited	0.3	0.5	116
Exxon Mobil Corporation	0.2	0.5	116
Apple Incorporated	0.2	0.5	115
Jardine Strategic Holdings Limited	0.2	0.5	109
Total top 25	**10.1**	**21.7**	**4,685**
Total public equity			**21,573**
Total portfolio			**46,228**

* Company regional exposures are based on pool fund asset class designations, per Statement of Investment Policy and Procedures.

**Company exposures are based on the ultimate parent company exposure regardless of where the security is listed or traded. As a result, the above exposure report shows Chinese State Controlled Companies as one of the top exposures because the ultimate parent company for many companies in China, is the Chinese government.

Plan details

A look at our membership

The Municipal Pension Plan (plan) had 192,791 active members who worked for 934 employers as at December 31, 2016. The total membership is 320,793.

There are four types of members.

Active Currently contributing, on a leave of absence or receiving benefits from an approved long-term disability plan. There are 192,791 active plan members, a 2.2 per cent increase from 2015.

Inactive Not currently contributing; have ended their employment with a plan employer and left contributions in the plan. Inactive members may be eligible for a pension in the future, or may become eligible if they return to work for a plan employer, contribute to the plan and accrue additional service. There are 38,454 inactive plan members, a 6.7 per cent increase from 2015.

Retired Currently receiving a pension, including a survivor or disability pension. There are 89,548 retired plan members, a 5.6 per cent increase from 2015.

Limited Spouses or ex-spouses of a plan member and entitled to a portion of the plan member's pension who apply to become limited members after a separation or divorce. These members are included in the active, retired and inactive totals.

Plan contributions

Plan members and employers both contribute to fund future pension payments.

Contribution rates are set by the board based on a valuation conducted by an independent actuary (a professional with specialized training in financial modelling, the laws of probability and risk management). The valuation is performed at least every three years to ensure there is enough money in the pension fund to pay all members' basic lifetime pensions.

If a contribution rate increase is necessary, the plan's Joint Trust Agreement requires that all contribution rate increases be split equally between members and employers.

MEMBERSHIP PROFILE (TOTAL: 320,793)
as at December 31, 2016

Active	192,791	60%
Retired	89,548	28%
Inactive[1]	38,454	12%

1 Members no longer employed by a plan employer but with money in the plan.

ACTIVE MEMBERS, BY AGE (TOTAL: 192,791)
as at December 31, 2016

<40 years	61,148	32%
40 < 50 years	51,500	27%
50 < 55 years	31,041	16%
55 < 60 years	28,867	15%
≥ 60 years	20,235	10%

ACTIVE MEMBERSHIP BY GENDER
(TOTAL: 192,791)
as at December 31, 2016

Females	140,238	73%
Males	52,553	27%

Membership in the plan is divided into member groups, some of which have separate accrual rates or earlier retirement ages. Employers are annually assigned contribution rates based on their member group classification and the demographics of their employee populations. An individual employer's blended rate can increase or decrease from year to year, depending on employee age, gender and salary. Over the next three years (beginning January 1, 2017), the plan is phasing in an employer contribution rate simplification to remove complexity from the plan, eliminate gender- and age-based differences, and make budgeting for pension contributions easier and more stable.

A look at our employers

As at December 31, 2016, there were 934 Municipal Pension Plan employers.

Member groups and contribution rates

Group 1 Males

Group 2 Male and female police officers and firefighters, other than members of Group 5. These members have the same contribution rates as groups 1, 3 and 4 but an earlier normal retirement age because they work in public safety.

Group 3 A group for females; closed on April 1, 1971. Members of this group elected, at time of closing, to remain in Group 3 and continue contributing to the plan until they ended plan membership or retired.

Group 4 Females.

At the end of 2016, members in groups 1, 2, 3 and 4 were contributing 8.50 per cent of salary up to and including the year's maximum pensionable earnings (YMPE; $54,900 in 2016) and 10.00 per cent of salary above that amount. YMPE is set annually by the federal government and determines the maximum salary on which Canada Pension Plan contributions must be made.

Group 5 Male and female police officers and firefighters. Members in Group 5 have a higher contribution rate and their pension benefit accumulates faster; this is valuable because police officers and firefighters have an earlier retirement age than other members. Participation is limited to police officers and firefighters whose employers join Group 5.

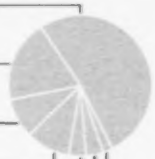
EMPLOYERS (TOTAL: 934)
as at December 31, 2016

Health sector	230	25%
Community social services	208	22%
Municipal[1]	197	21%
Other	157	17%
Group 5[2]	62	7%
School districts	59	6%
Colleges	21	2%

1 Cities, districts, towns, villages and regional districts
2 A member group established to provide an enhanced pension benefit for members employed as police officers and firefighters

TOTAL REGULAR EMPLOYER CONTRIBUTIONS BY SECTOR ($ MILLIONS)
for the year ended December 31, 2016

Health sector	$471	52%
Municipal[1]	$175	19%
School districts	$79	9%
Group 5[2]	$93	10%
Community social services	$36	4%
Other	$32	4%
Colleges	$21	2%



1 Cities, districts, towns, villages and regional districts
2 A member group established to provide an enhanced pension benefit for members employed as police officers and firefighters

At the end of 2016, members in Group 5 were contributing 10.44 per cent of salary up to and including YMPE, and 11.94 per cent above that amount.

Employers pay a blended rate based on their employees' demographics, including their ages, genders and salaries. By January 1, 2019, employer contribution rate simplification will eliminate gender- and age-based differences in employer contribution rates.

Member demographics

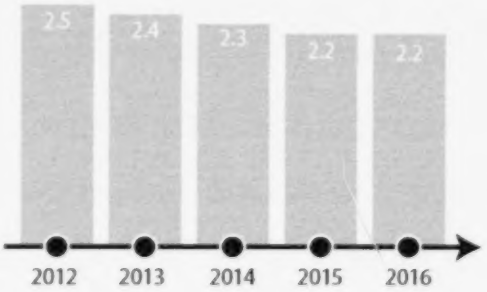
An aging membership and increased lifespans mean the plan's retired member population is growing faster than its active member population. As a result, the plan's ratio of active to retired members is getting smaller.

This affects the plan because the funding source for non-guaranteed group benefits for retired members is not pre-funded; it comes from a small portion of employer contributions, which is based on the number of active members. A decreasing ratio of active to retired members affects the level of funding available for group benefit subsidies.

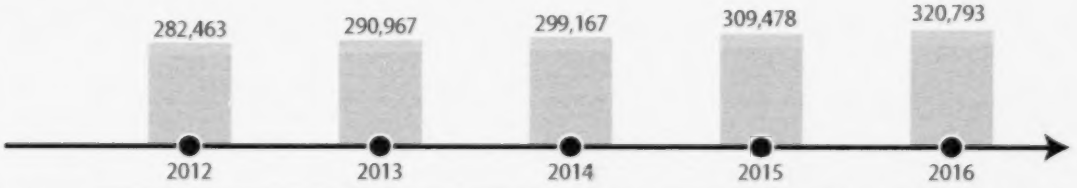
Basic pension

The basic pension is based on the years of pensionable service a member has accrued in the plan and the member's highest average salary (HAS). HAS is determined by calculating average salary over the member's highest 60 months of earnings (not necessarily the last 60 months the member works before retirement). It is the board's first priority to pay out the basic pension benefit. The plan also provides survivor and disability benefits.

RATIO OF ACTIVE TO RETIRED MEMBERS
as at December 31



NUMBER OF MEMBERS
as at December 31



	2012	2013	2014	2015	2016
Inactive[1]	32,669	33,630	34,442	36,050	38,454
Retired	71,056	75,284	79,782	84,777	89,548
Active	178,738	182,053	184,943	188,651	192,791

1 Members no longer employed by a plan employer but with money in the plan.

Pensions in pay

As at December 31, 2016, the average annual pension in pay for retired members was $17,600, and the median annual pension in pay was $12,500.

New pension profile

year ended December 31, 2016

Years of service	All new pensions (age of retirement)					Average salary	Average annual pension	Median annual pension	Average present value of pensions	Total present value of all new pensions
	< 55	55–60	60–65	≥ 65	Total					($ millions)
< 10 years	25	495	668	610	1,798	$ 55,300	$ 5,700	$ 4,500	$ 93,000	$ 167.2
10 < 15	7	303	456	298	1,064	58,900	13,000	11,700	215,000	228.8
15 < 20	13	261	423	258	955	61,500	18,600	17,500	319,000	304.6
20 < 25	9	253	457	223	942	64,900	25,800	23,800	445,000	419.2
25 < 30	47	267	385	128	827	72,000	36,400	32,900	638,000	527.6
30 < 35	20	328	179	62	589	75,000	45,600	41,500	833,000	490.6
≥ 35 years	1	119	84	73	277	73,400	44,900	42,700	785,000	217.4
Total	**122**	**2,026**	**2,652**	**1,652**	**6,452**	**$62,900**	**$21,000**	**$15,900**	**$362,000**	**$2,355.4**

	Average service				
All	22	19	18	15	18

	Average age
All	61

New pensions 2012 to 2016

year ended December 31

	Regular	Post-retirement limited member	Pre-retirement limited member	Disability	Survivor	Deferred	LTD* to pension	Total
2016	4,995	30	72	2	86	744	523	6,452
2015	4,891	23	92	4	98	663	422	6,193
2014	4,468	21	93	1	65	647	572	5,867
2013	3,917	23	89	8	62	615	461	5,175
2012	3,693	19	37	8	64	650	591	5,062

* Long-term disability.

Cost-of-living adjustments

A supplement to the basic lifetime pension, a COLA cannot exceed the annual increase in the consumer price index (CPI) or the amount of money in the plan's inflation adjustment account. In 2014, the board announced the implementation of a sustainable COLA methodology starting January 1, 2016. The new method introduces a COLA cap—a maximum amount of COLA the plan can grant in a year. A cap helps to maintain the long-term sustainability of funds in the inflation adjustment account so they are not used up faster than they can be replaced.

Each year, the board considers all relevant factors to determine if COLA will be granted. Effective January 1, 2016, retired members received a COLA of 1.0 per cent.

COLAs are not guaranteed. The board monitors the plan's ability to grant future COLAs; once granted, COLA becomes part of the basic lifetime pension.

Health coverage for retirees

Retired members and beneficiaries who receive a pension have access to group coverage for extended health care and dental. These group benefits are not funded by member contributions and are not guaranteed.

The plan's funding policy sets limits on group benefits for retired members. A small portion of employer contributions is used two ways. One part goes into the inflation adjustment account, from which COLAs are paid. The other part subsidizes group benefits for current retirees.

The plan's subsidized dental program for retired members ended December 31, 2016. Retired members have access to an unsubsidized dental program as of January 1, 2017.

Actuarial valuation results

Under the rules of the BC *Pension Benefits Standards Act* and the Municipal Pension Plan Joint Trust Agreement, the board must hire an independent actuary to conduct a review of the plan's funded position every three years. The actuary examines the plan's finances, membership and relevant economic and demographic factors. Specifically, the actuary reviews *assets*—money the plan has or is expected to receive—and *liabilities*—money the plan is paying out or expects to pay out.

Once the review is complete, the actuary presents the findings to the board in a valuation report. This tells the board if there is a funding shortfall or a surplus adequate to maintain existing benefits for the future.

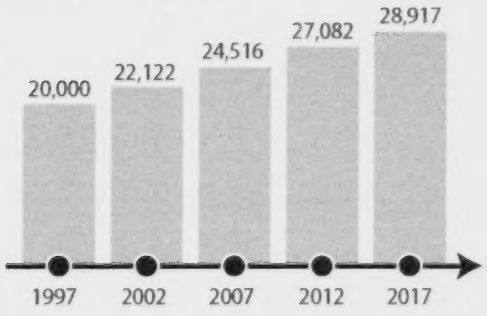
Completed in 2016, the 2015 valuation report determined:

- The plan is fully funded, with a 104.6 per cent funding ratio.
- The plan has a surplus of $2.2 billion.
- Member contribution rates will not change because of this valuation.
- The 2017–2019 sustainable cost-of-living adjustment funding limit, or COLA cap, will be 2.1 per cent.

Based on this valuation, $1.9 billion of the plan's funding surplus was put in a rate stabilization account to help offset possible future contribution rate increases. The remaining surplus was needed to maintain the contribution rate required by the *Pension Benefits Standards Act*.

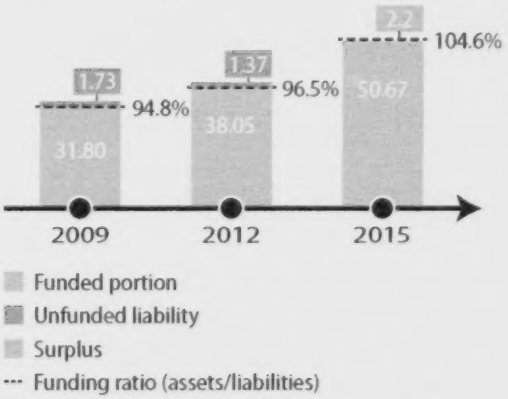
The results of the next valuation, as at December 31, 2018, will be announced in fall 2019.

BASIC PENSIONS PLUS COST-OF-LIVING ADJUSTMENTS[1] ($)



1 This is an illustration of the value of COLA historically

ACTUARIAL VALUATION RESULTS[1] ($ BILLIONS)
as at December 31



1 Assuming contribution rates in effect at the valaution date

Plan rules and policy changes

Employer contribution rate simplification (amendment no. 43)

(Effective January 1, 2017 and January 1, 2018)

Approved September 22, 2016, this amendment covers two of the three phases of an initiative to simplify employer contribution rates. When fully implemented, this simplification will eliminate gender- and age-based differences in employer contribution rates, and will make budgeting for employer contributions easier and more stable. Phase one was effective January 1, 2017; phase two will be effective January 1, 2018.

Sustainable cost-of-living limit

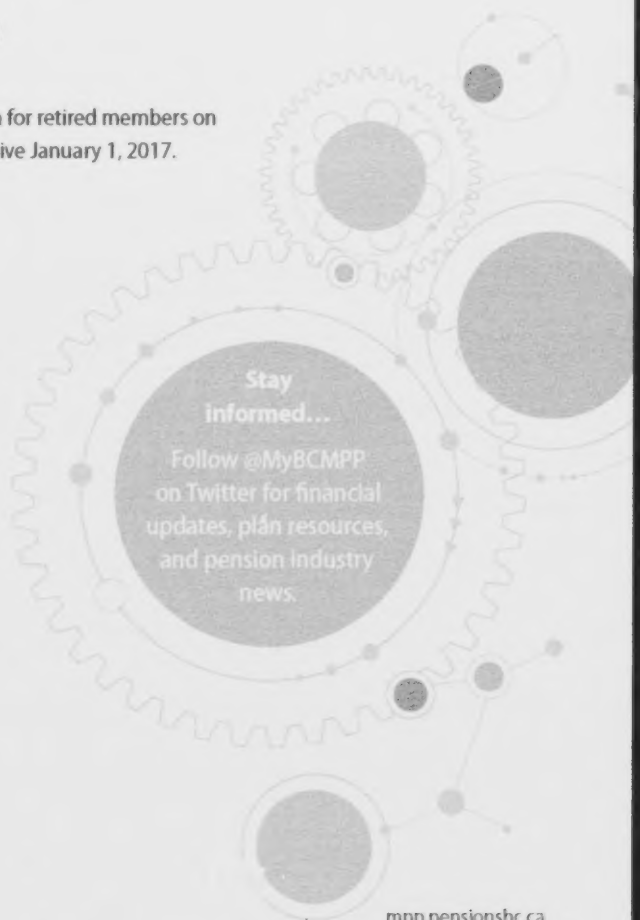
(Effective January 1, 2016)

Approved March 26, 2014, this decision introduced a new methodology for determining the amount of COLA that may be granted to retired members for a given year. It is intended to help maintain the long-term sustainability of funds in the inflation adjustment account, ensuring they are not used up faster than they can be replaced. The current cap is 2.1 per cent.

Post-retirement group benefit rules (amendment no. 5)

(Effective January 1, 2017)

Approved June 29, 2016, this amendment ended the subsidized dental plan for retired members on December 31, 2016, and replaced it with an unsubsidized dental plan effective January 1, 2017.



Who we are

Your 2016 trustees

Committee appointments as at December 31, 2016.
(For an up-to-date list of 2017 trustees, refer to the plan website at **mpp.pensionsbc.ca**.)

Frank Leonard, Chair
Appointed by: Union of British Columbia Municipalities
Committee(s): Appeals panel, governance, valuation, executive forum
Board term: 2002–2016

Gary Yee, Vice Chair
Appointed by: Municipal Employees' Pension Committee
Committee(s): Appeals panel, governance, valuation, BC Pension Corporation Board of Directors
Board term: 2014–current

Wayne Baldwin
Appointed by: Union of British Columbia Municipalities
Committee(s): Valuation
Board term: 2016–current

Donisa Bernardo
Appointed by: Municipal Employees' Pension Committee
Committee(s): Benefits
Board term: 2001–current

Dennis Blatchford
Appointed by: Health Sciences Association of British Columbia
Committee(s): Benefits, bcIMC Board of Directors
Board term: 2001–current

Hilary Brown
Appointed by: British Columbia Public School Employers' Association
Committee(s): Communications and advocacy (chair), governance, interplan website review
Board term: 2012–current

Lucas Corwin
Appointed by: Government of British Columbia
Committee(s): Investment
Board term: 2008–current

Debra Ducharme
Appointed by: British Columbia Nurses' Union
Committee(s): Benefits (chair), communications and advocacy, governance
Board term: 2010–current

Chris Finding
Appointed by: Hospital Employees' Union
Committee(s): Communications and advocacy, investment
Board term: 2015–current

Lyn Kocher
Appointed by: Health Employers Association of British Columbia
Committee(s): Communications and advocacy, valuation
Board term: 2001–current

Jane Lindstrom
Appointed by: Plan employer partner (Government of British Columbia and Union of British Columbia Municipalities)
Committee(s): Appeals panel, benefits
Board term: 2014–2016

Mary Procter
Appointed by: Health Employers Association of British Columbia
Committee(s): Valuation, BC Pension Corporation Board of Directors
Board term: 2009–current

Bonnie Pearson
Appointed by: Municipal Employees' Pension Committee
Committee(s):
Board term: 2016–current

Brian Schramm
Appointed by: Council of Joint Organizations and Unions
Committee(s): Benefits, investment
Board term: 2014–current

Steven Polak
Appointed by: Municipal Employees' Pension Committee
Committee(s): Investment (chair), governance, interplan audit
Board term: 2001–2016

Angie Sorrell
Appointed by: Government of British Columbia
Committee(s): Governance (chair), interplan trustee education
Board term: 2008–current

Patti Price
Appointed by: Canadian Union of Public Employees, British Columbia
Committee(s): Communications and advocacy, valuation
Board term: 2006–current

Robert Weeks
Appointed by: British Columbia Professional Fire Fighters Association and British Columbia Police Association
Committee(s): Valuation
Board term: 2016–current

Alternate trustees

Ron Amos
Appointed by: British Columbia Public School Employers' Association
Committee(s): Benefits, investment
Board term: 2014–current

Trevor Davies
Appointed by: Canadian Union of Public Employees, British Columbia
Committee(s): Communications and advocacy, interplan website review
Board term: 2014–current

Tony Collins
Appointed by: Health Employers Association of British Columbia
Committee(s): Appeals panel
Board term: 2013–current

Gayle Duteil
Appointed by: British Columbia Nurses' Union
Committee(s):
Board term: 2016–current

John G. Johnston
Appointed by: Health Employers Association of British Columbia
Committee(s): Benefits, communications and advocacy, interplan website review
Board term: 2003–2008, 2012–current

Kelly Knox
Appointed by: Hospital Employees' Union
Committee(s): Benefits
Board term: 2003–current

Diana Lokken
Appointed by: Plan employer partner (Government of British Columbia and Union of British Columbia Municipalities)
Committee(s): Investment
Board term: 2013–current

Gary MacIsaac
Appointed by: Union of British Columbia Municipalities
Committee(s): Benefits
Board term: 2014–current

Brian Northam
Appointed by: Council of Joint Organizations and Unions
Committee(s): Investment, valuation
Board term: 2001–current

Josef Rieder
Appointed by: Health Sciences Association of British Columbia
Committee(s):
Board term: 2016–current

Barbara Sinclair
Appointed by: Municipal Employees' Pension Committee
Committee(s): Appeals panel
Board term: 2012–current

Todd Sweet
Appointed by: British Columbia Professional Fire Fighters Association and British Columbia Police Association
Committee(s): Appeals panel, governance, valuation
Board term: 2005–current

Richard Taylor
Appointed by: Union of British Columbia Municipalities
Committee(s): Investment
Board term: 2001–current

Philip Twyford
Appointed by: Government of British Columbia
Committee(s): Interplan audit, benefits, governance, interplan trustee education, valuation (chair)
Board term: 2012–current

Hilary Woodward
Appointed by: Government of British Columbia
Committee(s): Communications and advocacy, interplan audit (chair)
Board term: 2011–current

Trustee remuneration

year ended December 31, 2016

Board member	Meetings: Attended/ possible[1]	Meetings: Additional attended	Total paid[2]	Total	Paid to
Leonard, Frank - Chair[3]	16/16	9	$24,101.50	$24,101.50	Frank Leonard
Yee, Gary - Vice Chair[3]	16/16	13	$33,146.75	$33,146.75	CUPE BC Regional Office
Amos, Ron	11/13	–	$9,671.00	$3,517.00	Ron Amos
		–		$6,154.00	School District #69 - Qualicum
Baldwin, Wayne	8/10	–	$8,360.00	$8,360.00	Wayne Baldwin
Bernardo, Donisa	8/9	–	$8,624.00	$8,624.00	Hospital Employees' Union
Blatchford, Dennis	7/9	–	$4,576.00	$1,408.00	Dennis Blatchford
		–		$3,168.00	Health Sciences Association of BC
Brown, Hilary	23/24	2	$6,688.00	$6,688.00	BC Public School Employers' Association
Collins, Tony	4/6	–	$1,144.00	$1,144.00	Health Employers Association of BC
Corwin, Lucas	4/10	–	$1,408.00	$1,408.00	Ministry of Finance
Davies, Trevor	10/18	–	$4,048.00	$2,816.00	Trevor Davies
		–		$1,232.00	CUPE BC Division
Ducharme, Debra	19/20	1	$15,914.50	$15,914.50	BC Nurses' Union
Duteil, Gayle	5/7	–	$3,520.00	$3,520.00	BC Nurses' Union
Finding, Chris	15/18	4	$11,352.00	$11,352.00	Hospital Employees' Union
Hobson, Robert[4]	1/1	–	$785.25	$785.25	Robert Hobson
Johnston, John	19/22	–	$6,952.00	$352.00	John Johnston
		–		$6,600.00	Interior Health Authority
Knox, Kelly	8/9	–	$5,104.00	$528.00	Kelly Knox
		–		$4,576.00	Hospital Employees' Union
Kocher, Lyn	12/17	1	$3,344.00	$3,344.00	Health Employers Association of BC
Lindstrom, Jane	6/9	–	$1,144.00	$1,144.00	Jane Lindstrom
Lokken, Diana	8/10	–	$6,554.53	$6,554.53	Diana Lokken
MacIsaac, Gary	8/9	1	$5,280.00	$5,280.00	Union of BC Municipalities
Northam, Brian	12/14	–	$13,718.25	$13,718.25	Brian Northam
Pearson, Bonnie	1/1	–	$1,408.00	$1,408.00	Bonnie Pearson
Polak, Steven	11/12	2	$17,147.25	$17,147.25	Steven Polak
Price, Patti	15/16	1	$13,534.00	$4,922.00	Patti Price
		–		$8,612.00	CUPE BC Division
Procter, Mary	9/10	–	$5,368.00	$5,368.00	Providence Health Care
Schramm, Brian	12/13	1	$15,117.25	$15,117.25	BCGEU
Sinclair, Barbara	5/6	–	$3,520.00	$3,520.00	Barbara Sinclair
Sorrell, Angie	13/14	1	$7,387.50	$7,387.50	Public Sector Employers' Council Secretariat
Sweet, Todd	14/15	–	$10,208.00	$3,520.00	Todd Sweet
		–		$6,688.00	New Westminster Police Department
Taylor, Richard	9/10	1	$6,952.00	$6,952.00	Richard Taylor
Twyford, Philip	20/21	–	$5,808.00	$5,808.00	Minister of Finance
Weeks, Robert	6/10	–	$8,233.28	$8,233.28	BC Professional Fire Fighters' Association
Woodward, Hilary	13/16	1	$4,646.40	$4,646.40	Legislative Assembly of British Columbia
Total Remuneration Paid[2]	**$274,765.46**				
Average meeting attendance	**85%[5]**				

[1] Comparison of the number of meetings attended vs. the number of meetings scheduled. The number of meetings scheduled varies by trustee due to committee membership.

[2] Total Remuneration Paid includes attendance at board & committee meetings, educational events, conferences, and preparation and travel time for these meetings/events.

[3] Includes Board Chair annual stipend of $7,040 and Vice Chair annual stipend of $5,280.

[4] Payment for final meeting in 2015

[5] Average meeting attendance in 2015 - 85%

Agents and service providers

British Columbia Investment Management Corporation

provides investment management services to BC's Municipal Pension Plan. One of Canada's largest investment managers, bcIMC manages more than $120 billion in assets on behalf of public sector pension plans, the Province of British Columbia, publicly administered trust funds and public bodies.

British Columbia Pension Corporation

is the administrative agent working on behalf of BC's Municipal Pension Board of Trustees. It provides pension administration services to the plan. These services include providing plan information to members and employers, managing contributions and member records, paying pension benefits and providing policy, financial and communication services. One of Canada's largest pension benefit administrators, BC Pension Corporation serves the largest public sector pension plans in British Columbia, representing more than 550,000 members and over 1,000 employers.

Eckler Ltd.

serves as the plan's independent actuary. Eckler conducts an actuarial valuation on the plan's funding every three years and supports the board in its decision-making, as appropriate. The next valuation will be presented to the board in fall 2019.

KPMG LLP

provides external audit services for the plan.

Pacific Blue Cross

administers retired plan member access to group extended health care and dental plans.

Shawn Hatch

is a legal advisor who serves as legal counsel for the plan.

Financial statements

PENSION CORPORATION
We make it easy

Executive Offices

Mailing Address:
PO Box 9460
Victoria BC
V8W 9V8

Location:
2995 Jutland Road
Victoria BC
V8T 5J9

Phone:
250 387-8201
Fax:
250 953-0429

MUNICIPAL PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Municipal Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Corporation), the administrative agent for the Municipal Pension Board of Trustees (Board) for the Plan. The Board is responsible for having annual financial statements prepared in accordance with Canadian generally accepted accounting principles for pension plans. The Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgments and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles for pension plans in Canada. Other financial information contained in the Municipal Pension Plan Annual Report is consistent with these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the independent Auditor's Report attached to these financial statements.

Trevor Fedyna, CPA CGA, C. Dir
Vice President Corporate Services
and Chief Financial Officer
British Columbia Pension Corporation

Kevin Craig, CPA CA
Director, Financial Services
British Columbia Pension Corporation

June 22, 2017

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Members of the Municipal Pension Plan

We have audited the accompanying financial statements of Municipal Pension Plan, which comprise the statement of financial position as at December 31, 2016, the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Municipal Pension Plan as at December 31, 2016, and the changes in its net assets available for benefits and the changes in its accrued pension benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Professional Accountants

June 22, 2017
Vancouver, Canada

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF FINANCIAL POSITION
($ millions)

As at December 31	Note	2016	2015
Assets			
Investments	3a	$ 46,226	$ 43,540
Receivables			
Members' contributions		36	34
Employers' contributions		38	36
Due from sale of investments		69	1,691
Derivatives	3b	57	5
		200	1,766
Prepaid expenses		7	12
Total assets		46,433	45,318
Liabilities			
Payable for purchase of investments		1	1,417
Accounts payable and accrued expenses		22	21
Taxes payable		16	14
Derivatives	3b	32	140
Total liabilities		71	1,592
Net assets available for benefits		**$ 46,362**	**$ 43,726**
Accrued pension benefits			
Accrued pension benefits–basic	4a	$ 35,315	$ 32,285
Accrued pension benefits–non-guaranteed	4b	6,602	5,998
Retirement annuity account	4c	423	414
Accrued pension benefits		42,340	38,697
Surplus			
Funding surplus	5a	315	2,671
Measurement differences between funding and accounting positions	5a	3,707	2,358
Surplus		4,022	5,029
Accrued pension benefits and surplus		**$ 46,362**	**$ 43,726**

The accompanying notes are an integral part of the financial statements including:

- Commitments (note 14)
- Contingencies (note 15)

Approved by the Municipal Pension Board of Trustees:

Lyn Kocher, CPA CGA
Trustee, Municipal Pension Board of Trustees

Hilary Woodward, CPA CA
Trustee, Municipal Pension Board of Trustees

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ millions)

For the year ended December 31	Note	Basic account	Inflation adjustment account	Retirement annuity account	Supplemental benefits account	Totals 2016	Totals 2015
Increase in assets							
Investment income	8	$ 2,226	$ 390	$ 43	$ -	$ 2,659	$ 3,592
Contributions							
Members	9	775	102	2	5	884	863
Employers	9	878	33	2	109	1,022	993
		1,653	135	4	114	1,906	1,856
Transfers from other plans		14	2	-	-	16	14
Total increase in assets		3,893	527	47	114	4,581	5,462
Decrease in assets							
Benefits	10	1,589	78	15	8	1,690	1,601
Transfers to other plans		7	8	-	-	15	12
Retired member group benefits	11	-	-	-	105	105	86
Investment and administration costs	12	122	12	-	1	135	124
Total decrease in assets		1,718	98	15	114	1,945	1,823
Increase in net assets before transfers		2,175	429	32	-	2,636	3,639
Account transfers	13	(152)	175	(23)	-	-	-
Increase in net assets		2,023	604	9	-	2,636	3,639
Net assets available for benefits beginning of year		37,314	5,998	414	-	43,726	40,087
Net assets available for benefits end of year		**$ 39,337**	**$ 6,602**	**$ 423**	**$ -**	**$ 46,362**	**$ 43,726**

The accompanying notes are an integral part of the financial statements.

Municipal Pension Plan

MUNICIPAL PENSION PLAN

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

($ millions)

For the year ended December 31	Note	2016	2015
Increase in accrued pension benefits			
Interest on accrued pension benefits		$ 2,083	$ 1,978
Benefits accrued		1,463	1,323
Changes in actuarial assumptions		1,637	-
Account transfers		159	275
Increase in accrued pension benefits		5,342	3,576
Decrease in accrued pension benefits			
Experience gains		628	-
Benefits paid		1,684	1,584
Decrease in accrued pension benefits		2,312	1,584
Net increase in accrued pension benefits		3,030	1,992
Accrued basic pension benefits, beginning of year		32,285	30,293
Accrued basic pension benefits, end of year	4a	35,315	32,285
Non-guaranteed pension benefits			
Increase in non-guaranteed benefits accrued	4b	604	267
Accrued non-guaranteed pension benefits, beginning of year		5,998	5,731
Accrued non-guaranteed pension benefits, end of year	4b	6,602	5,998
Retirement annuity account			
Increase in retirement annuity account	4c	9	43
Retirement annuity account, beginning of year		414	371
Retirement annuity account, end of year	4c	423	414
Total accrued pension benefits, end of year		**$ 42,340**	**$ 38,697**

The accompanying notes are an integral part of the financial statements.

$ millions except as otherwise noted

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN

The following description of the Municipal Pension Plan (Plan) is a summary provided for general information only. For more information, please refer to the Joint Trust Agreement (Agreement) and the Municipal Pension Plan Rules (pension plan rules).

a) General

The Plan is a jointly trusteed pension plan continued in agreement with the *Public Sector Pension Plans Act*, SBC 1999, s.44 (Act). The Act enabled the establishment of the Agreement. Joint trusteeship was established on April 5, 2001. The partners to the Agreement are the Municipal Employees' Pension Committee, as the member partner, and the Provincial Government of British Columbia and the Union of British Columbia Municipalities, as the employer partners (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Municipal Pension Board of Trustees (Board) and provides the authority for the Board to make the pension plan rules.

The Plan is registered with the Superintendent of Pensions who administers and enforces the *Pension Benefits Standards Act* (PBSA). PBSA governs employment pension plans that have active, inactive and retired members primarily based in British Columbia.

Membership in the Plan is open to all eligible employees of a municipality, school district, college, health service organization, police and fire fighters, and many other eligible employers as designated by the Board.

b) Roles and responsibilities

Partners

The Partners and appointing authorities representing the Plan members and employers are responsible for appointing 16 trustees and 16 alternate trustees representing Plan members and Plan employers. The Partners have responsibility for resolving trustee disputes and, if certain conditions are met, may direct amendments to the pension plan rules.

Board

The Board is responsible for the management of the Plan, including investment of assets and administration of the Plan. The Board may amend the pension plan rules as long as changes can be funded by the Plan's surpluses or are cost-neutral to the Plan (subject to transitional funding provisions in Note 5a). Unless required to ensure compliance with regulatory enactments applicable to the Plan, only the Partners can initiate pension plan rule changes that result in contribution rate increases. The Chair and Vice Chair are appointed by the trustees.

British Columbia Pension Corporation (Pension Corporation)

The Pension Corporation provides benefit administration services as an agent of the Board. The Board appoints two members to the eight-member board of directors of the Pension Corporation.

British Columbia Investment Management Corporation (bcIMC)

bcIMC provides investment management services as an agent of the Board. The Board appoints one member to the seven-member board of directors of bcIMC.

$ millions except as otherwise noted

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

c) Funding

Contributions and investment earnings fund Plan benefits. Contributions are made by active members and employers of the Plan. The determination of the value of the benefits and required contributions is based on periodic actuarial valuations for funding purposes.

The Board's funding policy is intended to secure the pension benefit obligation and achieve long-term stability in contribution rates for both employers and members.

d) Contributions

The following member and employer contributions apply to the majority of members, excluding a limited group with higher contribution rates required to fund the cost of their benefits.

Basic Account

Members contributed to the Basic Account 7.50% of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) (2016: $54,900; 2015: $53,600) and 9.00% of salaries over YMPE, less amounts allocated to the Supplemental Benefits Account.

Employers contributed to the Basic Account at varying rates, depending on the mix of employees in the group rate classifications specified by the Plan, less amounts allocated to the Supplemental Benefits Account. The Board approved on September 22, 2016 a three year process to simplify employer contribution rates.

Inflation Adjustment Account and Supplemental Benefits Account

Members contributed 1% of salaries to the Inflation Adjustment Account (IAA). Employers contributed 1% of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account.

Retirement Annuity Account

Some employers have special agreements with members by which additional contributions are made to increase members' pension benefits. These contributions are credited to the Retirement Annuity Account (RAA). Depending on benefit eligibility, the accumulated monies at retirement are used to fund the purchase of additional pension benefits or are paid out to a locked-in retirement vehicle.

e) Pension benefits

Effective September 30, 2015, all members are eligible for a pension benefit. Prior to September 30, 2015, all members with two years of contributory service were eligible for a pension benefit.

Members are eligible for unreduced pension benefits

- at age 65 (age 60 for certain groups);
- at age 60, with at least two years contributory service (age 55 for certain groups); or
- at age 55 or older, with age plus years of service totalling 90 or more (age 50 or older with age plus service totalling 80 or more for certain groups).

Other retiring members have a reduction formula applied to their pensions.

$ millions except as otherwise noted

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

e) Pension benefits (continued)

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.3% of pensionable earnings up to YMPE and 2.0% of pensionable earnings over YMPE for each year of pensionable service (to a maximum of 35 years). Pensionable earnings are based on the member's highest five-year average annual salary (HAS).

The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.7% of the lesser of YMPE or HAS for each year of pensionable service.

Future cost-of-living adjustments are not guaranteed. These adjustments are granted at the discretion of the Board and may not exceed the annual increase in the Canada Consumer Price Index (CPI) as at the previous September 30, subject to the availability of funds in the IAA. Any cost-of-living adjustment the Board grants is applied in January. The Board annually considers relevant factors to determine if an adjustment will be granted.

f) Termination and portability benefits

A terminating member, who is eligible for a pension but has not reached the earliest retirement age may choose:

- a deferred pension, or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in retirement vehicle or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future re-employment with a Plan employer, or prior to September 30, 2015, if under age 60 with less than two years of contributory service (age 55 for certain groups), a refund of contributions with interest. Members with less than two years of contributory service terminating on or after September 30, 2015, will have the same termination options as members with two years or more of contributory service and will no longer be able to choose a refund of contributions with interest.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

g) Other benefits

Disability and survivor benefits are also available under the Plan. A disability pension is available to a member under age 60 who becomes totally and permanently disabled as defined by the Plan, has at least two years of contributory service, is not eligible to receive benefits from an approved long-term group disability plan and meets other eligibility requirements. The pension is calculated using a member's years of pensionable service to the date of the disability retirement and HAS. Disability pensions continue for the member's lifetime unless the member is no longer totally and permanently disabled before age 60 or returns to work. A death benefit may be available to a surviving spouse or designated beneficiary upon the death of an active member. Depending on eligibility requirements, the benefit may be paid in the form of a survivor pension or lump-sum payment.

Supplemental benefits are funded from the Supplemental Benefits Account.

$ millions except as otherwise noted

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

h) Tax registration

The Plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act* (Canada) (Tax Act) (registration number 0359158), except for any supplemental benefits which are funded in addition to the RPP. The Plan is not subject to income taxes but is subject to indirect taxes, including British Columbia provincial sales tax (PST) and Canadian federal goods and services tax (GST). The Plan receives a 33% rebate of GST paid.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements are prepared on the going-concern basis in accordance with Canadian generally accepted accounting principles (GAAP) for pension plans, Part IV of the Chartered Professional Accountants of Canada (CPA Canada) handbook, and present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and any associated retired member group benefit plans.

Accounting standards for private enterprises in Part II of the CPA Canada handbook have been chosen for accounting policies that do not relate to the Plan's investment portfolio or accrued pension benefits.

b) Investments

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

c) Accrued pension benefits

Accrued pension benefits are determined based on an actuarial valuation prepared by an independent actuarial consulting firm. The valuation of accrued pension benefits is based on data extrapolated to the financial statement date. The valuation uses the projected benefit method prorated on service that incorporates the Board's estimate of various economic and non-economic assumptions. These assumptions are the same as those used in the determination of the actuarial position of the Plan for funding purposes.

d) Investment income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder and income from directly held investments. The current period change in fair value includes realized and unrealized gains and losses that are included in investment income.

Within the pools, dividends are accrued on the ex-dividend date and interest is recognized on an accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

$ millions except as otherwise noted

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing exchange rates on the year-end date. Income and expenses are translated into Canadian dollars at the prevailing exchange rates on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included within the current period change in fair value in investment income.

f) Use of estimates

The preparation of financial statements, in conformity with Canadian GAAP for pension plans, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of increases and decreases in assets and liabilities during the period. Significant areas requiring the use of management estimates relate to the valuation of investments that are based on unobservable inputs as further described in note 7 and the calculation of the accrued pension benefit of the Basic Account for accounting and funding purposes as further described in notes 4 and 5. Actual results could differ materially from these estimates.

3. INVESTMENTS

a) Investments

Fair value of investment holdings	2016			2015		
	Basic account	Inflation adjustment account	Total	Basic account	Inflation adjustment account	Total
Short-term	$ 2,240	$ 375	$ 2,615	$ 2,617	$ 421	$ 3,038
Bonds	5,458	913	6,371	5,233	843	6,076
Canadian equities	5,549	928	6,477	4,106	661	4,767
U.S. equities	3,101	518	3,619	3,981	641	4,622
International equities	10,342	1,729	12,071	10,719	1,726	12,445
Mortgages	932	156	1,088	906	146	1,052
Real estate	5,640	943	6,583	5,277	850	6,127
Private placements	2,426	406	2,832	2,262	365	2,627
IRR*	3,915	655	4,570	2,400	386	2,786
	$ 39,603	**$ 6,623**	**$ 46,226**	**$ 37,501**	**$ 6,039**	**$ 43,540**

* Infrastructure and renewable resources

Plan investments consist primarily of direct ownership in units of pooled investment portfolios managed by bcIMC. Each unit gives its holder a proportionate share in the value of the net assets of the pooled investment fund. The Basic and IAA accounts are combined for investment management purposes.

$ millions except as otherwise noted

3. INVESTMENTS (continued)

a) Investments(continued)

One or more pooled investment portfolios exist for different types of investments, such as short-term investments, bonds, Canadian, U.S. and international equities, mortgages, real estate, private placement, infrastructure and renewable resources. While the purpose of each fund is to invest in a particular type of investment, at any time, given the timing of trading activities, the fund may hold a certain amount of cash, short-term investments, accrued interest income and net accounts receivable or payable from outstanding sales and purchases of investments.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with maturities of 15 months or less and short-term bonds with one to five year terms. Short-term investments are valued using current market yields. Bonds consist of government bonds, investment grade and non-investment grade corporate bonds and debentures. Bonds are valued based on current market yields and in some cases quoted market prices. Equities consist primarily of publicly traded shares, and, in the case of international equities, investments in the equity markets of Europe and Asia, as well as key emerging markets. Canadian, U.S. and international equities are valued based on quoted market prices on the primary exchanges on which they are traded.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. The mortgages are secured by real estate and valued using current market yields. Real estate investments consist mainly of diversified Canadian income-producing properties. Real estate investments are valued quarterly by external real estate investment managers and, at least once every 10 to 18 months, by accredited independent appraisers to establish current market values. Private placements consist mainly of Canadian and international long-term debt or equity investments made outside the structure of public markets. Private placements are valued annually based on audited financial statements from private placement external managers. Interim valuations for private placement investments are based on the annual valuations and adjusted for subsequent cash flows and changes in foreign exchange rates for investments outside Canada.

Infrastructure and renewable resources consist of privately-owned and managed infrastructure assets, and timber, agriculture and other renewable assets. Infrastructure and renewable resources investments are valued annually and adjusted for subsequent cash flows and changes in foreign exchange rates for investments outside Canada.

The Plan directly holds infrastructure and renewable resources investments of $627 (2015: $526), short-term investments of $66 (2015: $123) and bonds of nil (2015: $12).

A collateral account for the Plan is established that is pledged as security for future investment opportunities. As at December 31, 2016, $0 (2015: $12) of bonds and $66 (2015: $123) of short-term investments are being held as collateral for a letter of credit.

A separate investment asset portfolio is not held for the Retirement Annuity Account assets. For administrative purposes, as at December 31, 2016, $423 in RAA assets are included in Basic Account investments (2015: $414).

$ millions except as otherwise noted

3. INVESTMENTS (continued)

b) Derivatives

The details of directly held foreign exchange contracts are as follows:

Fair value of derivative contracts	2016		2015	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Foreign exchange contracts				
Forwards	$ 57	$ (32)	$ 5	$ (140)
	$ 57	**$ (32)**	**$ 5**	**$ (140)**
Derivatives by investment asset classification				
International equities	$ -	$ -	$ -	$ (3)
Real estate	2	(13)	4	(29)
Private placement	14	-	-	(39)
Infrastructure and renewable resources	41	(19)	1	(69)
	$ 57	**$ (32)**	**5**	**(140)**

Notional value of derivatives by terms to maturity	Within 1 year	1 to 5 years	Over 6 years	2016 Total	2015 Total
Foreign exchange contracts					
Forwards	$ 2,953	$ -	$ -	$ 2,953	$ 3,646
	$ 2,953	**$ -**	**$ -**	**$ 2,953**	**$ 3,646**

Derivative contracts consist of forward and future foreign exchange contracts and are held indirectly through various pooled investment portfolios and directly by the Plan to manage exposure to foreign currency risk. Foreign exchange contracts held directly are reflected at fair value based on expected settlement amounts in effect at the date of the Statement of Financial Position.

A foreign currency forward contract is a privately negotiated contractual obligation to exchange one currency for another at a specified price for settlement on a predetermined date in the future. A foreign currency future contract is an exchange-traded contractual obligation to exchange one currency for another at a specified price and date in the future.

$ millions except as otherwise noted

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

a) Basic Account

In accordance with the Agreement and PBSA, an actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in note 5a. As part of the actuarial valuation, the actuary also calculates values, for accounting purposes, of the Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes as described in note 5a. Also, for accounting purposes, the full impact of investment fair value changes is reflected in the financial statements as at the financial statement date compared with the deferral and amortization of fair value gains or losses in the valuation for funding purposes. The liability for accrued basic pension benefits at the valuation date is determined using the projected benefit method prorated on service.

The latest full actuarial valuation for accounting purposes was prepared as at December 31, 2015, by Eckler Ltd. This valuation calculated the liability for accrued basic pension benefits for financial statement purposes to be $33,294 (2012: $26,720).

Between valuations, an estimate of the actuarial position is required. This estimate, an extrapolation, has been made to December 31, 2016, using the following long-term actuarial assumptions:

- annual investment return 6.25% (2012: 6.50%)
- annual salary escalation rate 3.50% (2012: 3.75%)

The extrapolation calculated the liability for accrued basic pension benefits to be $35,315 (2015: $32,285, based on the December 31, 2012 valuation).

The 2016 extrapolation reflects assumption changes made during the 2015 valuation that resulted in an increase in the 2015 accrued benefit liability of $1,637, primarily due to changes in economic and post-retirement mortality assumptions. Further, the 2015 valuation accrued pension benefit liabilities were $628 lower than anticipated by the 2015 extrapolation as a result of experience gains, primarily salary increases being lower than the actuarial assumption.

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals and changes in other factors, may vary significantly from the long-term assumptions used in the extrapolation. In the event of a major change to the Plan, a new valuation or review of the assumptions may be required.

The next full actuarial valuation will be carried out as at December 31, 2018.

Actuarial liabilities are also affected by changes in the assumed investment return. Based on the actuarial valuation completed as at December 31, 2015, a reduction in the investment return assumption from 6.25% to 6.00% would have increased the December 31, 2016, liability for accrued basic benefits of $35,315 by $1,136 or 3.22% (2012: $846 or 3.17%). Changes to assumptions included in the actuarial valuation are interrelated and the cumulative impact of changed assumptions may be offsetting.

$ millions except as otherwise noted

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

b) Inflation Adjustment Account (IAA), non-guaranteed pension benefits

No unfunded liability exists for the IAA since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. There is no minimum level of inflation adjustment required to be paid under the pension plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential inflation adjustments (note 5b).The accrued non-guaranteed pension benefits obligation is therefore equal to the net assets available for benefits in the IAA, $6,602 (2015: $5,998). The net increase of $604 (2015: $267) in the IAA balance consists of employee and employer contributions, investment income and net transfers reduced by payments out of the account (see Note 13 for details on amounts transferred).

c) Retirement Annuity Account (RAA)

The RAA is comprised of additional contributions by employers and members under special agreements. If a member is entitled to, and chooses to, purchase additional pension benefits at retirement, monies are transferred from the RAA to the Basic Account and the IAA to fund the additional benefits. No unfunded liability exists as the obligation to purchase a pension is limited to the amount of the available assets in the account. The accrued pension benefit for the RAA is therefore equal to the net assets available in the RAA, $423 (2015: $414).

The net asset increase of $9 (2015: $43) in the RAA balance consisted of employee and employer contributions and earnings on investments reduced by payments out of the account. The net asset increase of $43 in the RAA balance for 2015 ~~is~~ was comprised primarily of a one-time retroactive adjustment.

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

The Basic Account is the account from which the defined basic benefits of the Plan are paid. In accordance with the Agreement and PBSA, an actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and accrued pension benefits to the financial statement date, and contributions and benefits for future service. The contribution requirements are calculated by the actuary using the entry age normal cost method (entry-age method). This method produces the long-term rate of member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan. This rate may be adjusted for the amortization of any actuarial funding surplus and this rate will be adjusted for the amortization of any unfunded actuarial liability. Contribution rate determination excludes consideration of the assets in the rate stabilization account, except if the rate needs to increase, funds will be transferred from the rate stabilization account to keep the rate at its current level or to minimize the increase.

$ millions except as otherwise noted

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

The Basic Account is also the account from which any cost-of-living adjustments that have been granted to retired members are paid. Future cost-of-living adjustments are not guaranteed within the Plan provisions and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits (note 5b). As cost-of-living adjustments are granted, the Basic Account receives from the IAA the present value funding necessary for the cost-of-living adjustments granted. Therefore, accrued basic pension benefits for valuation purposes include the liability for all cost-of-living adjustments granted to the date of the valuation, but not for as-yet-unknown future cost-of-living adjustments.

Actuarial valuation

The latest full actuarial valuation for funding purposes was prepared as at December 31, 2015, by the independent actuary based on the entry-age method; the valuation indicated an actuarial surplus of $2,224 (2012: $1,370 unfunded liability). As a result of the 2015 basic account actuarial valuation surplus and pursuant to the trustee agreement, $1,927 was transferred to the rate stabilization account and $297 of the surplus was needed to ensure the required contribution rates remained unchanged. Interest is added to the rate stabilization account at the smoothed investment return rate, subject to a maximum rate stabilization account balance of $2,500.

An estimate of the actuarial position of the Plan for funding purposes has been made to December 31, 2016 and 2015, using the following long-term actuarial assumptions:

- annual investment return 6.25% (2012: 6.50%)
- annual salary escalation rate 3.50% (2012: 3.75%)

This estimate, an extrapolation, produced a surplus of $315 as at December 31, 2016 (2015: $2,671, based on the 2012 actuarial valuation), as follows:

Funding extrapolation	**2016**	**2015**
Net assets available for basic pension benefits	$ 39,337	$ 37,314
Actuarial asset value adjustment	(2,317)	(3,545)
Smoothed assets for basic pension benefits	37,020	33,769
Rate stabalization account	(2,087)	-
Smoothed assets excluding rate stabalization account	34,933	33,769
Present value of future contributions (entry-age method)	13,434	12,475
Present value of future amortization	2,470	2,924
Net actuarial assets for basic pension benefits	50,837	49,168
Actuarial liability for accrued and future basic pension benefits	(50,522)	(46,497)
Entry-age method actuarial surplus	**$ 315**	**$ 2,671**

Changes in the extrapolated entry-age method funded status	**2016**	**2015**
Extrapolated entry-age method actuarial surplus, beginning of year	$ 2,671	$ 1,722
Extrapolated change in actuarial liability for accrued and future basic pension benefits	(4,025)	(2,524)
Extrapolated change in actuarial assets for basic pension benefits	1,669	3,473
Extrapolated entry-age method actuarial surplus, end of year	**$ 315**	**$ 2,671**

$ millions except as otherwise noted

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Actuarial valuation (continued)

Extrapolations may not be reliable indicators of the next valuation results, nor do they necessarily reflect the overall trend of results. Between valuations, various factors, including actual wage increases, investment earnings, and the incidence of retirements and withdrawals, may vary significantly from the long-term assumptions used in the extrapolation.

Measurement differences between funding and accounting positions

The primary components of the measurement differences between the extrapolated entry age method funding surplus and the financial statement accounting surplus are as follows:

Measurement difference between funding and accounting positions	2016	2015
Entry-age method funding surplus	$ 315	$ 2,671
Actuarial asset value adjustment	2,317	3,545
Rate stabalization account adjustment	2,087	-
Difference in actuarial methods–present value of future contributions	(13,434)	(12,475)
Difference in actuarial methods–presentt value of future amortization	(2,470)	(2,924)
Difference in actuarial methods–present value of future liabilities	15,207	14,212
Measurement differences between funding and accounting positions	3,707	2,358
Surplus for financial statement purposes	**$ 4,022**	**$ 5,029**

Actuarial asset value adjustment

For the purposes of determining the entry age method surplus for funding purposes, the actuarial value of net assets available for benefits is determined on an adjusted value basis, which smooths the difference between the actual investment return and the expected return based on a long-term real return rate over a five-year period.

The practice employed by the funding valuation requires that the value of the assets be smoothed within a certain corridor. In the 2015 valuation, the corridor required that the smoothed value be no more than 108% (2015: 110% 2012 valuation) and no less than 92% (2015: 90% 2012 valuation) of the market value of the assets. The smoothed value of the assets at December 31, 2016, was 94.1% (2015: 90.5%).

The following schedule indicates the year the components of the actuarial asset value adjustment will be recognized in the entry age method actuarial surplus. The amounts are based on that proportion of the total fund related to the Basic Account assets.

Actuarial asset value adjustment	2016	2015
2016	$ -	$ 1,474
2017	1,243	1,186
2018	697	636
2019	312	249
2020	65	-
Total adjustment	**$ 2,317**	**$ 3,545**

$ millions except as otherwise noted

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Rate stabilization account adjustment

The Partners, in consultation with the Trustees, amended the Agreement in October 2014 to allow, notwithstanding the items specified in the transitional period, the establishment of a contribution rate stabilization account (RSA) following the December 31, 2015, actuarial funding valuation. If the 2015 valuation identified a surplus, the surplus amount, not to exceed $2.5 billion, would be retained in the RSA. Any surplus in excess of $2.5 billion would be transferred to the IAA, provided that the transfer not exceed the amount required to ensure that the IAA can support cost-of-living adjustments at 100% of the increase in CPI.

As a result of the December 31, 2015 actuarial funding valuation, $1.9 billion of assets was transferred to the RSA that is held notionally within the Basic Account. Interest on the RSA is determined by applying the smoothed rate of return to the fiscal year-end balance. For 2016, $160 of interest was transferred from the Basic Account to the RSA based on the 2016 smoothed rate of return of 8.28%.

Rate stabilization account	**2016**	**2015**
Opening transfer	$ 1,927	$ -
Plus: Interest	160	-
Ending balance	**$ 2,087**	**$ -**

Difference in actuarial methods

While the accrued pension benefit liability for financial statement purposes uses the projected benefit method pro-rated on service, the pension liability for funding purposes uses an entry age funding method, where the present value of future normal cost contributions, basic pension benefits for future service and future amortization amounts are included in the determination of the funded status of the plan.

Transitional period

The Agreement specifies a transitional period during which actuarial deficits will be amortized over 15 years, as required by the PBSA, and actuarial gains must be used to achieve the following objectives, in order of priority:

1. Eliminating any unfunded liability.
2. Simultaneously rebalancing member and employer contribution rates to the level of member contribution rates in effect at the time the Agreement was negotiated and providing specified benefit improvements.
3. Transfer funds in equal measure to a Contribution Rate Stabilization Reserve and to the IAA, to an aggregate total of $1 billion. The Contribution Rate Stabilization Reserve will be shared on an equal (50/50) basis in order to maintain or reduce future member and employer contribution rates.

If these transitional objectives are achieved, the Agreement describes the manners in which the Board can elect to apply surplus assets so as to achieve over time an equitable sharing of the benefits of the surplus assets between members and employers.

The Agreement describes that if, at any time, an actuarial valuation indicates that increased basic contribution rates are required to fully fund the Plan on a going-concern basis, the increase must be shared equally by members and employers.

$ millions except as otherwise noted

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA, since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. As cost-of-living adjustments are granted to retired members, full funding for that granted cost-of-living adjustment, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of cost-of-living adjustment required to be paid under the pension plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential cost-of-living adjustments.

The Board annually considers all relevant factors and its IAA funding policy to determine if a cost-of-living adjustment will be granted on pensions in pay and the amount of the cost-of-living adjustment, if any.

The Board established a cap for cost-of-living adjustments for retired members on January 1, 2014. As a result of the 2015 actuarial valuation, the new cap effective January 1, 2017 until January 1, 2019, has been set at 2.10% (2012: 1.95%). The cap for sustainable cost-of-living adjustments will be reviewed following each subsequent triennial actuarial valuation.

c) Retirement Annuity Account (RAA)

No unfunded liability exists for the RAA, since the obligation to purchase a pension is limited to the amount of the available assets in the account. The accrued pension benefit for the RAA is therefore equal to the net assets available in the RAA.

6. FINANCIAL RISK MANAGMENT

a) Risk management framework

The Board approves the long-term asset mix policy for investment assets through its Statement of Investment Policies and Procedures (SIPP) and oversees the management of these assets through the Board's investment management agent, bcIMC. The SIPP requires diversification of investments among asset classes, sets guidelines on investment categories and limits the exposure to individual investments and counterparties.

Significant risks are regularly monitored and managed by bcIMC and actions are taken when appropriate, according to the Plan's SIPP. In addition, these risks are reviewed periodically with the Board.

b) Market risk

Market risk is the risk that the fair values of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. Market risk consists of foreign currency risk, interest rate risk, and other price risk. Market risk is managed through asset class diversification, diversification within each asset class and credit quality requirements for investments.

$ millions except as otherwise noted

6. FINANCIAL RISK MANAGMENT (continued)

b) Market risk (continued)

Foreign currency risk

Foreign currency exposure arises from foreign-currency denominated investments held directly or indirectly through pooled investment portfolios. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. bcIMC has currency exposure management programs under which it enters into economic hedges of foreign currency exposure through the use of forward and future foreign currency contracts. A foreign currency forward contract is a contractual obligation either to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate.

The Plan's total direct and indirect currency exposure, the impact of economic hedging and trading activities, and its net exposure as at December 31 are as follows:

Fair value of foreign denominated investment holdings

(Cdn dollar equivalent)	Total exposure	Economic hedging	Net exposure	% of total
		2016		
United States	$ 11,898	$ 2,685	$ 9,213	53%
Asia-Pacific, excluding Japan	3,836	185	3,651	21%
Other	1,477	-	1,477	9%
Euro countries	1,942	485	1,457	8%
Japan	824	1	823	5%
Other Europe	557	1	556	3%
United Kingdom	608	397	211	1%
	$ 21,142	**$ 3,754**	**$ 17,388**	**100%**
		2015		
United States	$ 10,272	$ 2,355	$ 7,917	49%
Asia-Pacific, excluding Japan	3,658	33	3,625	22%
Other	1,406	-	1,406	9%
Japan	1,103	1	1,102	7%
Euro countries	1,925	933	992	6%
Other Europe	750	1	749	4%
United Kingdom	878	443	435	3%
	$ 19,992	**$ 3,766**	**$ 16,226**	**100%**

In addition to the investments in foreign currencies, the Plan held $25.2 billion (2015: $23.7 billion) of investments denominated in Canadian dollars. The net foreign currency exposure represents 38% (2015: 37%) of the Plan's total investments.

Included in these totals as at December 31, 2016, are net accounts receivable of $68 for outstanding sales and purchases of investments (2015: net accounts receivable of $274), and net derivatives receivable of $25 (2015: net derivatives payable of $135).

As at December 31, 2016, if the Canadian dollar strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, net assets available for benefits would have decreased or increased by approximately $1.7 billion (2015: $1.6 billion).

$ millions except as otherwise noted

6. FINANCIAL RISK MANAGMENT (continued)

b) Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the Plan's investments will change in fair value due to future fluctuations in market interest rates. The risk arises primarily on interest-bearing financial instruments held in short-term investments, bonds and mortgages. The risk of adverse changes in interest rates is reduced within the underlying investment pools through management of duration in exposure to fixed income securities, the use of floating rate notes and general diversification by security type and geographic region.

The terms to contractual maturity of interest-bearing financial instruments held directly and through pooled investment portfolios, as at December 31, are as follows:

Terms to maturity of interest-bearing financial instruments	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Effective yield to maturity
			2016			
Money market	$ 1,416	$ 1,199	$ -	$ -	$ 2,615	0.99%
Bonds	162	2,126	1,383	1,487	5,158	2.43%
Real return bonds*	30	151	121	911	1,213	0.68%
Mortgages	352	614	122	-	1,088	2.69%
Debt	-	-	124	-	124	6.44%
	$ 1,960	**$ 4,090**	**$ 1,750**	**$ 2,398**	**$ 10,198**	
			2015			
Money market	$ 2,652	$ 376	$ 10	$ -	$ 3,038	0.77%
Bonds	46	1,208	1,911	1,568	4,733	2.18%
Real return bonds*	78	5	60	1,200	1,343	0.63%
Mortgages	468	511	73	-	1,052	2.33%
Debt	61	-	-	-	61	7.13%
	$ 3,305	**$ 2,100**	**$ 2,054**	**$ 2,768**	**$ 10,227**	

*Effective yield to maturity percentages are only the real return; inflation has not been considered.

As at December 31, 2016, if the prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve with all other variables remaining constant, the fair value of interest-bearing financial instruments and net assets available for benefits would have decreased or increased by approximately $632 (2015: $618).

$ millions except as otherwise noted

6. FINANCIAL RISK MANAGMENT (continued)

b) Market risk (continued)

Other price risk

Other price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency or interest rate risks), whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. The Plan's investments are subject to other price risk through its public equity investments and private market investments, including equity in real estate, held directly and through pooled investment portfolios. This risk is managed by diversifying investments across asset classes based on criteria established in the SIPP. As at December 31, 2016, if equity prices increased or decreased by 10% with all other factors remaining constant, net assets available for benefits would have increased or decreased by approximately $3.5 billion (2015: $3.2 billion).

c) Credit risk

Credit risk is the risk that a loss may occur from the failure of another party to perform according to the terms of a contract. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtors' obligations. Credit risk is managed by establishing specific investment criteria, such as minimum credit ratings for investees and counterparties and maximum concentration limits with given counterparties.

Credit risk ratings on financial instruments (short-term investments, bonds, mortgages and debt) held directly and through pooled investment portfolios are as follows:

Credit rating of financial instruments	2016		2015	
AAA/AA	$ 4,959	49%	$ 5,325	52%
A	3,119	31%	3,175	31%
BBB	708	7%	614	6%
Non-Investment Grade	191	2%	-	0%
	8,977	88%	9,114	89%
Unrated	1,221	12%	1,113	11%
	10,198	**100%**	**$ 10,227**	**100%**

The ratings used are defined by Standard & Poor's rating agency. Obligations rated AAA/AA have the highest rating assigned. The lender's capacity to meet its financial commitment on the obligation is very strong. Bonds assigned an A or BBB rating are weaker with the BBB rating denoting an obligation with adequate protection parameters and a non-investment grade rating denoting major ongoing uncertainties or exposure to adverse business, financial, or economic conditions that could lead to the obligator's inadequate capacity to meet its financial commitment on the obligation. Unrated financial instruments consist mainly of mortgages that are secured by real estate.

Credit exposure also exists for members' and employers' contributions receivable and other non-investment assets directly held by the Plan totalling $74 (2015: $70), for the derivatives $57 (2015: $5) and for the due from sale of investments of $69 (2015: $1,691).

$ millions except as otherwise noted

6. FINANCIAL RISK MANAGMENT (CONTINUED)

d) Liquidity risk

Liquidity risk is the risk of not being able to meet the Plan's cash requirements in a timely and cost-effective manner. Expenditures relate primarily to pensions, termination and refund benefits, and investment and administration costs. The Plan's approach to mitigating liquidity risk is to forecast its cash requirements over the near and long term to determine whether sufficient funds are available. The Plan's primary source of liquidity is income generated from the Plan's investments and employer and employee contributions. bcIMC primarily invests in pooled funds that hold securities that are traded in active markets and can be readily sold, and where the pooled fund units can thereby be redeemed to fund cash requirements. Accounts payable and taxes payable of $38 (2015: $35) and payable for purchase of investments of $1 (2015: $1,417) are generally due within one month. Derivatives payable of $32 (2015: $140) are due within the next fiscal year.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Fair value hierarchy

Fair value measurements of the investment assets and liabilities are based on inputs from one or more levels of a fair value hierarchy. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities. The three levels of the fair value hierarchy are:

Level 1

Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2

Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.

Level 3

Inputs that are not based on observable market data.

Plan investments are carried at fair value in the financial statements. The following table details the classification of the Plan investments based on the fair value hierarchy as at December 31:

Fair value hierarchy	Level 1	Level 2	Level 3	Total
		2016		
Pooled fund units	$ 1,307	$ 36,335	$ 7,891	$ 45,533
Direct investments	66	-	627	693
Investments	**$ 1,373**	**$ 36,335**	**$ 8,518**	**$ 46,226**
Derivatives	**$ -**	**$ 25**	**$ -**	**$ 25**
		2015		
Pooled fund units	$ 2,558	$ 34,539	$ 5,782	$ 42,879
Direct investments	123	73	465	661
Investments	**$ 2,681**	**$ 34,612**	**$ 6,247**	**$ 43,540**
Derivatives	**$ -**	**$ (135)**	**$ -**	**$ (135)**

$ millions except as otherwise noted

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

a) Fair value hierarchy (continued)

During 2016 and 2015, there were no significant transfers of investments between levels.

The following table reconciles the Plan's level 3 fair value measurements:

Level 3 fair value hierarchy	Pooled fund units	Direct investments	Total
		2016	
Balance, beginning of year	$ 5,782	$ 465	$ 6,247
Net losses included in investment income	267	28	295
Purchases	2,873	150	3,023
Sales	(1,031)	(16)	(1,047)
Balance, end of year	**$ 7,891**	**$ 627**	**$ 8,518**
Total unrealized loss included in investment income	$ (188)	$ 18	$ (170)
		2015	
Balance, beginning of year	$ 4,311	$ 359	$ 4,670
Net gains included in investment income	1,106	87	1,193
Purchases	1,004	45	1,049
Sales	(639)	(26)	(665)
Balance, end of year	**$ 5,782**	**$ 465**	**$ 6,247**
Total unrealized gain included in investment income	$ 860	$ 85	$ 945

b) Valuation models

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

bcIMC uses widely recognized valuation methods for determining the fair value of common and more simple financial instruments such as investments in pooled funds, where fair value is based on the underlying net asset value of the respective pooled fund as determined by the underlying fund manager. Observable prices and model inputs are usually available in the market for listed equity and debt securities, simple derivatives such as forward currency contracts, and pooled funds. The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the financial instrument and is subject to change based on specific events and general conditions in the financial markets.

$ millions except as otherwise noted

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

b) Valuation models (continued)

For more complex financial instruments, such as direct private placement investments held by the Plan, bcIMC uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market and are derived from market prices or rates, or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of judgment and estimation in the determination of fair value. bcIMC's judgment and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows of the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that bcIMC believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Plan and the counterparties where appropriate.

c) Valuation framework

bcIMC has an established framework with respect to the measurement of fair values of financial instruments. Where possible, for direct private placement investments held by the Plan, external, independent valuation specialists are engaged annually to assist in the determination of fair value. In those circumstances where bcIMC is reliant on the third-party manager for the determination of fair value, bcIMC reviews the appropriateness of such valuations using audited financial statements of the underlying investments, where available, and other information from the underlying third-party manager or other sources.

In addition, bcIMC applies the following specific controls in relation to the determination of fair values:

- Verification of observable pricing inputs;
- Appraisal of domestic real estate properties once every 10 to 18 months by accredited independent appraisers;
- Analysis and investigation of significant valuation movements, and
- Review of unobservable inputs and valuation adjustments

When third-party information such as broker quotes or pricing services is used to measure fair value, bcIMC assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations are appropriate. This includes:

- verifying that the broker or pricing service is approved by bcIMC for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;

$ millions except as otherwise noted

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

c) Valuation framework (continued)

- when prices for similar financial instruments are used to measure fair value, understanding how these prices have been adjusted to reflect the characteristics of the financial instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, understanding how fair value has been determined using those quotes.

d) Significant unobservable inputs used in measuring fair value

The following table sets out information about significant unobservable inputs used at year end in measuring financial instruments categorized as level 3 in the fair value hierarchy:

Significant unobservable inputs used in measuring fair value

Description	Fair value	Valuation technique	Unobservable input	Amount / range	Sensitivity to change in significant unobservable input
			2016		
					The estimated fair value would increase if:
Pooled fund units	$ 7,891	Net asset value	Net asset value	$ 7,891	The net asset value increased
Direct private placements	$ 353	Adjusted discounted cash flows	Discount rate	8.1% to 9.1%	The discount rate was lowered
Direct private agriculture investments	$ 150	Net asset value	Net asset value	$ 150	The net asset value increased
Direct debt	$ 124	Recent round of financing	Transaction value	$ 124	The transaction price increased
			2015		
					The estimated fair value would increase if:
Pooled fund units	$ 5,782	Net asset value	Net asset value	$ 5,782	The net asset value increased
Direct private placements	$ 336	Adjusted discounted cash flows	Discount rate	8.4% to 9.4%	The discount rate was lowered
Direct private agriculture investments	$ 129	Net asset value	Net asset value	$ 129	The net asset value increased

$ millions except as otherwise noted

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

d) Significant unobservable inputs used in measuring fair value (continued)

Net asset value

Net asset value is determined by bcIMC based on fair value of assets less liabilities. Such investments are closed funds with significant restrictions on redemptions and, accordingly, bcIMC is unable to dispose of the pooled fund investment until the maturity or wind-up and liquidation of the respective pooled fund. In such cases, it is the Plan's policy to categorize the pooled fund investment as level 3 within the fair value hierarchy.

Discount rate

This represents the discount rate applied to the expected future cash flows of the direct private placement investment. For the discount rates used, the underlying investment manager assesses both the risk premium and the appropriate risk-free rate based on the economic environment in which the investee entity operates. The discount rate is adjusted for such matters as liquidity differences, credit and market factors. The estimated future cash flows are then discounted using the discount rate determined. Cash flows used in the discounted cash flow model are based on projected cash flows or earnings of the respective investee entity.

Transaction value

This represents the value that the latest subscriber to the investment paid for ownership. The transaction price is an indicator of the fair value of the company.

e) Effects of unobservable input on fair value measurement

The use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in level 3, changing one or more of the assumptions used to reasonable alternative assumptions would have the following effects on net assets attributable to holders of redeemable units.

Effects of unobservable input on Level 3 fair value measurement

	2016		2015	
	Favourable	Unfavourable	Favourable	Unfavourable
Pooled fund units	$ 789	$ (789)	$ 578	$ (578)
Direct investments	58	(58)	41	(41)
	$ 847	**$ (847)**	**$ 619**	**$ (619)**

The pooled fund units, direct private agriculture investments and direct debt investments were valued based on information received from bcIMC, the manager of the respective investments. The fair value of these investments fluctuates in response to changes to specific assumptions for these particular investments, as determined by bcIMC. The favourable and unfavourable effects of reasonable alternative assumptions for the valuation of pooled fund units and direct private agriculture investments have been calculated by adjusting the respective underlying net asset value by 10%.

For direct private placement investments, bcIMC engages third-party independent valuators to estimate the fair market value. The valuators produce comprehensive reports for each applicable investment. The favourable and unfavourable effects of reasonable alternative assumptions for the valuation of direct investments have been calculated by recalibrating the model values using unobservable inputs based on the upper and lower threshold of the respective investment's range of possible estimates.

$ millions except as otherwise noted

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

f) Financial instruments not measured at fair value

The carrying value of members' contributions receivable, employers' contributions receivable, due from sale of investments, prepaid expenses, accounts payable and accrued expenses, taxes payable and payable for purchase of investments approximate their fair value given their short-term nature. These financial instruments are classified as level 2 in the fair value hierarchy because, while prices are available, there is no active market for these instruments.

8. INVESTMENT INCOME

	2016			2015		
	Income allocation	Change in fair value	Total	Income allocation	Change in fair value	Total
Short-term	$ 21	$ (6)	$ 15	$ 23	$ 4	$ 27
Bonds	165	27	192	148	50	198
Canadian equities	170	865	1,035	130	(458)	(328)
U.S. equities	65	216	281	93	690	783
International equities	297	(123)	174	307	1,414	1,721
Mortgages	52	(12)	40	41	2	43
Real estate	703	(365)	338	548	(79)	469
Private placements	434	1	435	323	326	649
Infrastructure and renewable resources	21	(1)	20	20	258	278
	1,928	602	2,530	1,633	2,207	3,840
Derivatives	-	129	129	-	(248)	(248)
	$ 1,928	**$ 731**	**$ 2,659**	**$ 1,633**	**$ 1,959**	**$ 3,592**

Investment income represents realized and unrealized pooled investment portfolio income attributable to the Plan, as a unit holder and income from directly held investments. Income allocation is composed of interest, dividends and other investment payments. Change in fair value is composed of realized gains and losses on the disposal of investments and derivatives and unrealized gains and losses on investments and derivatives held at year end. All income earned within a pooled investment portfolio is reinvested within the portfolio. The RAA was allocated a share of Basic Account investment income based on the five-year annualized rate of return of the Basic Account as per the pension plan rules.

$ millions except as otherwise noted

9. CONTRIBUTIONS

	Basic account	Inflation adjustment account	Retirement annuity account	Supplemental benefits account	Total
			2016		
Members' contributions					
Regular	$ 769	$ 101	$ -	$ 5	$ 875
Special agreements	-	-	2	-	2
Past service purchases	6	1	-	-	7
	775	102	2	5	884
Employers' contributions					
Regular	871	32	-	4	907
Special agreements	-	-	2	-	2
Past service purchases	7	1	-	-	8
Retired member group benefits	-	-	-	105	105
	878	33	2	109	1,022
	$ 1,653	**$ 135**	**$ 4**	**$ 114**	**$ 1,906**
			2015		
Members' contributions					
Regular	$ 749	$ 98	$ -	$ 4	$ 851
Special agreements	-	-	2	-	2
Past service purchases	9	1	-	-	10
	758	99	2	4	863
Employers' contributions					
Regular	849	45	-	4	898
Special agreements	-	-	2	-	2
Past service purchases	6	1	-	-	7
Retired member group benefits	-	-	-	86	86
	855	46	2	90	993
	$ 1,613	**$ 145**	**$ 4**	**$ 94**	**$ 1,856**

Member and employer contributions are as defined under the pension plan rules. Members' past service purchases are voluntary contributions.

$ millions except as otherwise noted

10. BENEFITS

	Basic account	Inflation adjustment account	Retirement annuity account	Supplemental benefits account	Total
			2016		
Regular pension benefits	$ 1,301	$ -	$ -	$ 7	$ 1,308
Indexing – regular pension benefits	207	-	-	1	208
Termination and refund benefits	55	63	15	-	133
Death benefit payments	25	15	-	-	40
Disabilty pensions	1	-	-	-	1
	$ 1,589	**$ 78**	**$ 15**	**$ 8**	**$ 1,690**
			2015		
Regular pension benefits	$ 1,206	$ -	$ -	$ 6	$ 1,212
Indexing – regular pension benefits	201	-	-	1	202
Termination and refund benefits	68	65	19	-	152
Death benefit payments	22	12	-	-	34
Disability pensions	1	-	-	-	1
	$ 1,498	**$ 77**	**$ 19**	**$ 7**	**$ 1,601**

11. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account funds certain supplemental benefits; for example, pension benefits which exceed the Tax Act limits for registered pension plans are paid through this account. Certain group benefit coverage has been provided for retired members through this account. The availability, type and level of retired member group benefit coverage are contingent upon the availability of funding for such benefits.

To the extent dental and extended health benefits are funded through the Supplemental Benefits Account (2016: $68; 2015: $52), they are funded from current contributions that would otherwise be employer inflation contributions. The amount of funding that can be used for dental and extended health benefits is limited to 0.8% of pensionable salaries. For 2016, this funding totalled 0.7% of pensionable salaries (2015: 0.5%).

To the extent medical service plan premiums are funded through the Supplemental Benefits Account (2016: $37; 2015: $34), they are funded from current contributions that would otherwise be employer basic contributions.

Retired member group benefits costs (shown on the Statement of Changes in Net Assets Available for Benefits) represent group benefit costs paid by the Plan less any premiums paid by retired members.

$ millions except as otherwise noted

12. INVESTMENT AND ADMINISTRATION COSTS

	2016	2015
Investment management	$ 91.4	$ 84.8
Benefit administration	41.1	36.4
Board secretariat costs	0.9	1.1
Other professional services	0.7	0.7
Board remuneration and expenses	0.6	0.5
Actuarial	0.4	0.1
Audit	0.1	0.1
	$ 135.2	**$ 123.7**

bcIMC and Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards. Investment management and benefit administration costs are approved by the Board.

Investment management costs represent amounts charged to recover internal and external management costs incurred by bcIMC, except those external management fees related to investments managed by an underlying external manager, where management fees are embedded in the net assets of the respective investment.

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by Pension Corporation.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board secretariat costs represent amounts directly incurred by the Board for costs associated with supporting the Board.

Other professional services costs include insurance and legal fees incurred directly by the Plan.

Board remuneration and expenses represent amounts for trustee compensation and direct expenses.

13. ACCOUNT TRANSFERS

	2016			2015		
	Basic account	Inflation adjustment account	Retirement annuity account	Basic account	Inflation adjustment account	Retirement annuity account
Cost-of-living adjustment	$ 136	$ (136)	$ -	$ 250	$ (250)	$ -
Indexing of deferred pensions	7	(7)	-	7	(7)	-
Pensions purchased from retirement annuity account	17	6	(23)	18	9	(27)
Excess investent return	(312)	312	-	-	-	-
	$ (152)	**$ 175**	**$ (23)**	**$ 275**	**$ (248)**	**$ (27)**

$ millions except as otherwise noted

13. ACCOUNT TRANSFERS (continued)

The IAA is a separate account that is maintained for funding current and future cost-of-living adjustments. The IAA is funded through a portion of ongoing contributions from employers and members investment income earned and excess investment return earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, if pension payments are adjusted for the current cost-of-living adjustment, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current cost-of-living adjustment. The Board annually considers all relevant factors and its IAA funding policy to determine if a cost-of-living adjustment will be granted on pensions in pay and the amount of the cost-of-living adjustment, if any.

When a deferred pension is paid, the present value of the cost-of-living adjustments during the deferral period is transferred from the IAA to the Basic Account. Approximately $104 (2015: $104) of the current IAA balance is for cost-of-living adjustments intended for deferred pensions but not yet transferred to the Basic Account.

When investment earnings in the Basic Account are in excess of the actuarial assumption regarding investment rates of return, the excess investment returns are transferred from the Basic Account to the IAA. Excess investment returns are based on investment income earned on those assets in the Basic Account required for pensions currently being paid, approximately $15 billion of assets for 2016 (2015: $14 billion). The excess investment rate of return is determined by taking the difference between the actual five-year annualized market rate of return (10.20%) and the rate of return used by the actuary (6.25%) in valuing the Plan's liabilities. The calculated excess investment return rate of return for 2016 was 3.95% (2015: 3.20%), resulting in an excess investment return amount of $611 (2015: $444).

Should the excess investment return calculation ever result in a negative amount, it will be carried forward cumulatively with interest and offset against future excess return. The cumulative negative excess investment interest is an amount determined by applying the five-year annualized market rate of return to the fiscal year opening balance. This component of the calculation is the opportunity cost related to the opening cumulative return deficit.

Excess (negative) investment return	**2016**	**2015**
Cumulative negative excess investment return, beginning of year	$ (272)	$ (652)
Interest applied to beginning of year amount	(27)	(64)
Excess investment return	611	444
Excess investment return transferred to IAA	(312)	-
Cumulative negative excess investment return, end of year	**$ -**	**$ (272)**

After taking into account the cumulative negative excess investment return balance, $312 was transferred from the Basic Account to the IAA.

A separate RAA is maintained to record additional contributions by employers and members under special agreements. If a member is entitled to, and chooses to, purchase additional pension benefits at retirement, monies are transferred from the RAA to the Basic Account and the IAA to fund the additional benefits.

$ millions except as otherwise noted

14. COMMITMENTS

The Plan participates in private placement and international real estate pools that are managed by bcIMC. As at December 31, 2016, the Plan's share of commitments for future investment contracts in these pools over the next several years is approximately $4,332 (2015: $3,531).

15. CONTINGENCIES

The Canadian Federal Government contests bcIMC's immunity from the imposition of goods and services tax or harmonized sales tax (HST/GST) under the *Excise Tax Act*, in respect of costs recovered by bcIMC from assets it holds in its pooled investment portfolios. In 2009, bcIMC was advised that the Canadian Federal Government was in discussions with the British Columbia Government regarding the application HST/GST to costs recovered by bcIMC from assets held by bcIMC in pooled investment portfolios. In December 2013, bcIMC filed a petition in the Supreme Court of British Columbia (Court) seeking a declaration confirming its crown immunity in respect of HST/GST relating to costs recovered from assets held in pooled investment portfolios.

In November 2015, the Minister of National Revenue issued HST/GST reassessments for the period July 1, 2010 to March 31, 2013. bcIMC has filed a Notice of Objection to this re-assessment.

In September 2016, the Court issued a ruling on a petition filed by bcIMC, holding that the pools were entitled to Crown immunity and therefore immune from HST/GST with respect to costs recovered by bcIMC, but also that bcIMC was bound by the provisions of the Reciprocal Tax Agreement and the Comprehensive Integrated Tax Coordination Agreement (jointly "Agreements") entered into between the British Columbia Government and Canadian Federal Government. The decision has been appealed by the federal government with respect to crown immunity and cross appealed by bcIMC with respect to whether bcIMC is bound by the Agreements.

bcIMC management is of the opinion that the Court will not deny bcIMC the ability to rely on its statutory crown immunity and that, as a consequence, ultimately no net HST/GST liability will arise. Consequently, the Plan has not accrued any liability for such tax. If the ultimate outcome is unfavourable to bcIMC's position, the Plan estimates the cumulative HST/GST owing for the period from April 1, 2010 to December 31, 2016, to be in the range of $95 to $105, including penalties and interest. This amount would be recoverable from assets in the pooled investment portfolios. The impact on the net asset value of pooled investment portfolio units held by the Plan, should HST/GST be payable, is estimated to be $33 to $37.

16. CAPITAL DISCLOSURES

Capital is defined as the funded status (surplus or deficit) of the Plan as determined by the actuary. The Plan's objective for managing capital is to ensure that the assets of the Plan are invested prudently and effectively and with contributions adequate to meet the obligations of the Plan. Management of the Plan's funded status is achieved by adjusting member and employer contribution rates, through implementation of the SIPP that affects the earnings of the Plan and, in the case of the IAA, by changing the benefits paid. The Board has a funding policy that outlines the principles that provide guidance in managing this process. The investment performance of the Plan assets is reviewed by the Board on a regular basis compared to relevant industry benchmarks. Benefit entitlement is based on the provisions of the Agreement and the pension plan rules. Funding deficits must be funded over a period not to exceed 15 years.

$ millions except as otherwise noted

16. CAPITAL DISCLOSURES (continued)

An actuarial valuation must be prepared at least once every three years. The latest actuarial valuation for funding purposes was prepared as at December 31, 2015, and has three components: the Basic Account non-indexed benefits and, by considering the valuation of the entire Plan, the non-guaranteed IAA benefits and the RAA (note 1d). The next full actuarial valuation will be carried out as at December 31, 2018.

The Act and the Board's funding policy require that contribution rates comply with the going-concern requirements of PBSA.

17. PRIOR YEAR COMPARATIVES

The prior year comparatives have been reclassified to conform to the current year presentation.

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